

A Freshlogic foodcast on Australian and international trends, innovations and other insights relevant to the Australian food market

What we're seeing

Will we see a new stronger push to restore household wealth?

– These are very anxious times, with the daily update on global stock market gyrations while European and US banking and political leaders (who presided over the slide into chaos) try in vain to stave off another meltdown in credit availability and avoid lengthy recessions.

Consumer confidence rebounded according to the September issue of the Westpac barometer but as we go to print that may be a dated insight, as it reflected a lifting in spirits as the Reserve Bank gave very clear signals that the next interest rate movements are likely to be reductions.

What possibly got missed in the reading of that message by Joe Average was the fairly large underlying reason for the reduction – the financial markets are likely to implode and take down your savings! The 2008 GFC dug into household wealth, which has seemingly had a prolonged effect on saving and spending.

The question is, will the current global turmoil lead to a renewed focus by households on restoring wealth, and if so, what will the impact be? A return to wealth rebuilding may not have such a dramatic impact as it did after the GFC in 2008. Expectations and aspirations have been adjusted since that experience, and the fear of change may already be built into preferences and habits.

Where household money goes – The release of the latest household expenditure survey (HES) by the ABS has received plenty of coverage in the past few weeks. While the data relates to the HES for the 2009/10 financial year, the ABS have certainly sped up the timing of these releases, which provides a useful insight into the way segments of the household sector spend their income.

With the last survey done in 2003/04 it provides a useful comparison over time, and helps explain why there's a bit of pain being felt. This is especially true for those facing the rising costs of the "infrastructure of life", which people fear will keep rising at well above the rate of growth in their take home pay. The chart on the right compares shifts in the composition in spending on some fixed commitments –e.g. housing, utilities, health and education - over the last 10 years, with the relative CPI since 2008.

The rising fixed costs of life are contributing to tighter spending – increasing savings aren't the only reason.

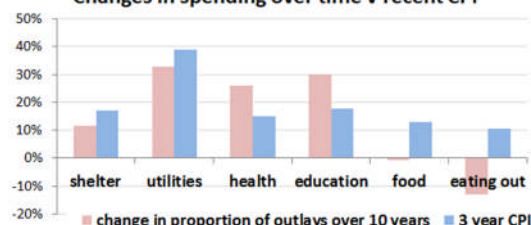
September promotional activity – Freshlogic's tracking of retailer printed promotional activity using [Adwatch](#) again showed increased activity from independents and discounters while the big two chains held their volumes close to levels in the preceding month. It is interesting though to compare activity with the same period a year ago where advertised lines of all retailers except Coles and Woolworths were significantly higher than this September.

Seasonal and meal-convenience issues have again influenced the **category priorities** this month, with frozen food lines remaining highest in terms of volumes (as winter meals have been replaced by focus on ice-cream and dessert lines) with volumes of cold drink promotions moving up the league table into second spot.

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Changes in spending over time v recent CPI

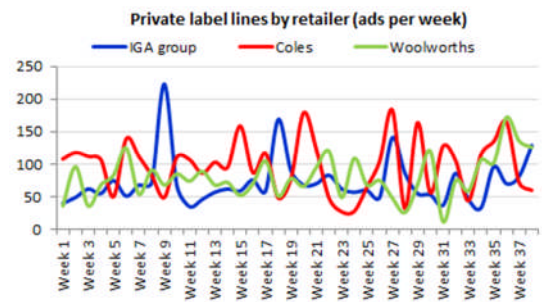


Change in retailer advert volumes



The private label push by the three major chains remained intense and was ramped up somewhat in the recent 4-week period for IGA and Woolworths, showing that there is no let-up in the ferocity of competition between the major grocery chains using their own brands in the battle.

Private labels were again the most promoted brands across all adverts run by supermarkets, well ahead of major FMCG brands in dry and chilled/frozen groceries, with Woolworths using their own brand in 14% of ads with volumes the highest seen all year. The big two seem to trade places on a month-to-month basis – last month it was Coles that was the heaviest user of the house brand.



✿ *The promotional messages reaching shoppers have a huge sway on week-to-week spending choices, and can help explain patterns that exist in the data – not only between brands but also between competing food and drink categories.*

Making news

The power of opinion – Google has purchased bar and restaurant-review firm Zagat, a deal that highlights the importance and influence of opinion. The internet giant's move to grab a share of the revenue from local businesses, based on the ability to “delight people with an impressive array of reviews, ratings and insights”.

Zagat's reviews are penned by actual customers, a forum which will now be given a platform for delivery across Google's platforms, which will include the rapid growth being seen by its new social networking tool Google+ which is quickly gaining share of users against the establishment.

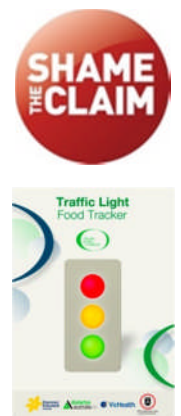


✿ *Personal or peer opinion has gathered immense power and influence through social media and technology platforms. Google has the capability to do one or more innovative things with the Zagat business – especially now that its Google+ is gathering speed as a rival to Facebook.*

Advocates turn up heat in the labelling debate – As the food industry awaits the regulatory response to the Blewett Review of Food Labelling Law and Policy, advocacy groups have ramped up their campaigns in support of traffic-light themed approaches.

CHOICE commenced a *Campaign for Better Food Labelling* which it says intends to bring out the true picture of the products that make false or selective label claims of being low-fat, low in carbohydrates and/or fibre-rich. CHOICE says consumers are being fooled by labels that claim to be “99% fat free” but are hiding that the product is high in sugar content. CHOICE invites consumers to “shame the claim” and has listed a starting set of offending products on its website. While CHOICE and AFGC cozied up with their shared political views on supermarkets, they are not seeing eye-to-eye on this issue.

The **Victorian Cancer Council** waded into the food labelling debate with the launch of a simplistic mobile app called Traffic Light Food Tracker which it claims will enable users to “work around the food industry's hesitation in supporting traffic light labelling”. Users only have to key in their food item's fat, sugar and sodium quantities and save each item in their “pantry” within the phone app.



✿ *The “traffic light” advocates may fear the game is up in terms of where a government decision will come out.*
 ✿ *App designers may have to spend a bit more money on scanning technology before such an app gets into wider use. Shoppers barely take notice of label information, let alone fumble for their iPhones, punch in a set of numbers and then decide whether to select an item.*

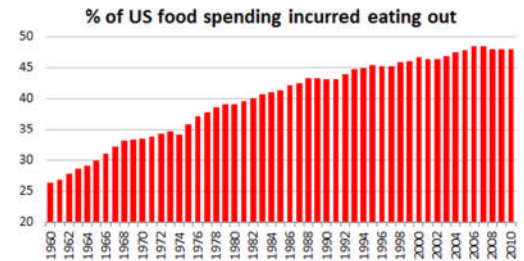
The consumer

Soaking up smartphones – Tech industry specialists are suggesting smartphone are well on their way to gaining higher usage than PCs, based on the rate of sales, scope for application, and anecdotal evidence of their usage. An IPSOS/Google smartphone survey says Australia now has the second highest smartphone penetration in the world, trailing Singapore only. The survey showed that 37% of Australians own a smartphone, with 80% saying that they purchased the device in the past six months. It is hard to say from the survey summaries whether that excludes the effect of people replacing broken iPhones.

The average smartphone has 25 apps of which 8 were purchased. It is expected that ownership will reach 50% by the end of the year. Android units (produced by HTC, Samsung and others) have sped past the iPhone in terms of unit sales, with a recent survey claiming they made up 43% of sales versus 38% for the iPhone.

This research supports the fact that consumers are increasingly using and trusting their phones and service providers in making online purchases and purchase decisions.

Has eating out peaked in the US? – It seems the decades-old trend of Americans spending a growing portion of their spending on food in dining out may have ended. The USDA recently released its assessment of spending by households which shows the percentage of spending has now been flat for the past 4 years, and is likely to decline further given the lingering bleak economic situation.



While the foodservice industry has suffered a massive impact from diners trading down, the effect of several years of battered incomes and sentiment shows how anchored the eating-out preferences remain.

The US foodservice sector has stalled a few times before but will be challenged to again reinvent itself if the current debt crisis blows out into a longer period of recession.

Global food retail

Virtual stores – UK retailers are innovating with virtual retail outlets. Tesco launched its system in the Seonreung subway station in Seoul, providing virtual displays of over 500 of Tesco Homeplus’ most popular products with barcodes. Customers can scan the barcodes using a Homeplus app on their smartphones and get the products delivered to their door. If orders are placed before 1.00pm, items will be delivered home that same evening, creating greater speed and convenience in the whole shopping experience.



Online food retailer Ocado ran a “pop-up shop”, using the Homeplus format in a London shopping centre. Ocado customers were able to pick up their weekly groceries using the retailer’s own “On The Go” app.

The novelty of will gain a wider following in major cities due to the excitement of the pop-up approach, the low-cost retail access to consumers and the appealing convenience aspects of the format.

Japan becoming a harder market to crack – The turbulence of the past six months and the uncertainty facing the economy has been too much for certain investors in Japan’s food market, a sure sign of the lingering doubts that the country will be able to bounce back quickly. UK’s supermarket chain Tesco joined a long list of retailers that have come, set up shop, done their dough and left the Japanese market. Since entering Japan eight years ago, Tesco had set up 129 small stores in the greater Tokyo area (which didn’t even net 1% of the Tokyo market).



But Japan was Tesco’s weakest country for sales growth in the last year, with like-for-like sales down 8%. Other global retailers – French Carrefour and US’s Walmart – have lost large amounts trying to better connect with the Japanese housewife.

Tesco’s decision is hardly a vote of confidence in prospects for growth in what is Australia’s largest export market, but the decision is probably not that simple. Investment calls are harder these days in Tesco, with its home market flat and a long-term struggle to make its US Fresh & Easy roll-out pay dividends.

Calorie info spreads – It will be interesting to see if the experiences of QSR outlets in New York City will be repeated in other places as McDonalds spreads the use of calorie information in its outlets.



As part of the UK government's “responsibility deal” on public health – voluntary pledges aimed at involving the food industry in the fight against health problems– as of early September McDonald's features the energy content of its burgers, wraps and even condiments on menus. KFC, Burger King and Pizza Hut have each signed up for the labelling pledge and the UK government hopes more than 5,000 food outlets will document calories by the end of this year.

As you'd expect, the Australian regulatory mess involving food will worsen on this issue. New South Wales, ACT and South Australia don't want to wait for a uniform national approach and have introduced separate legislation requiring QSR outlets to show kilojoule content on their menu boards as well as prominently feature the average adult daily energy intake of 8700kj.

☀ *McDonald's is holding off introducing calorie menu boards until the Australian and New Zealand governments release their approach to regulation of food labelling.*

Other things of interest...

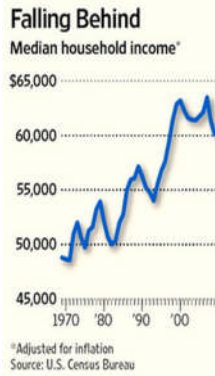
The vanishing middle class...just a US problem?

– A growing number of US major FMCG giants and retailers think that in future it will be better to aim at either the upper and lower ends of the market, as they reckon the middle class is vanishing. They are well down the track in reconfiguring the way they research, develop and market their products.

Food companies such as Heinz and Kellogg, and cleaning and personal care giant Procter & Gamble have focused on developing more products to aim at the low-end of the market, along with a number of consumer goods retailers. Traditional budget-appealing retail monoliths such as Walmart and Target were by-passed in this trend in segmentation, stuck in the middle and watching their same store sales numbers fall for – in the case of Walmart - the past 2 years.

The trend was labelled early by Citigroup as the Consumer Hourglass Theory, which it used as the basis for an investment portfolio which significantly outperformed the market. But the risk facing the US is this phenomenon looks far more like the permanent shape of things to come, as society squeezes the middle class out of existence.

46 million Americans are now living below the official poverty line, the highest number in the 52 years the US Census Bureau has been publishing figures on it. The ranks of the poor and low-income earners are growing and the rich are doing just fine.



☀ *With economic growth in Australia continuing to vary noticeably across state and industry, there is a risk that the middle class in Australia may also start to decline, with real implications for the FMCG industry.*

Green merits being valued in office space – “Green” office buildings are valued more higher than other buildings according to a joint study by Australian and Dutch universities. Office buildings that scored “high” under either the National Australian Built Environment Rating System (NABERS) Energy or Green Star rating schemes not only earned a premium on purchase (on average 9%, with variations across cities, and high as 21% in Canberra), but also carried the benefits into lower vacancy, outgoings, and better yields.



At the other end of the scale, those with low ratings earned discounts compared to average values. Results were consistent between Australian and US cities studied in the project.

☀ *“Green” is far from being a warm and fuzzy concept to the corporate sector, where more direct evidence of the preparedness to invest in a more sustainable way of doing business has come in the value placed on office space. Better quality technology and systems, contribute to reduced costs overtime, and a cleaner building will convert to happier staff and higher retention.*

Asia Fruit Logistica 2011



We attended the annual Asia Fruit Logistica trade show in Hong Kong in early September.

Here is a summary of what we saw and heard:

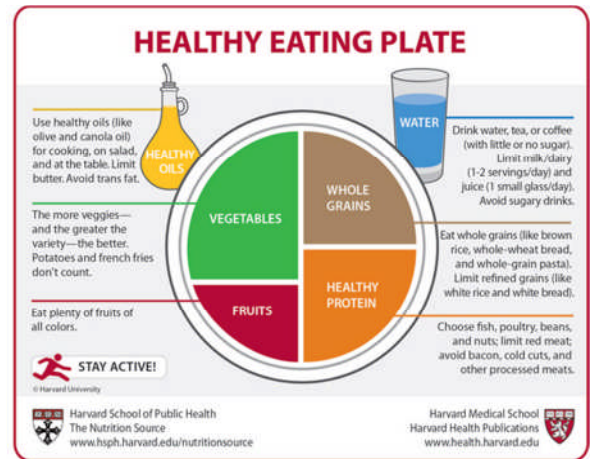
- **Trading the focus** - the volume growth of the Chinese market is driving a trading focus, while the focus of a similar but larger Berlin event in Feb 2011 was on innovation and new products.
- **The shift in sales away from regional wet markets to supermarkets** is running at 1-2% market share p.a.
- **Grocery retailers are rapidly expanding** - potential exporters should understand the **mixture of store formats and growth plans** in selecting distribution options.
- **SE Asian shoppers generally aspire to western brands** - some Southern hemisphere exporters have developed and support market-specific brands.
- **The value and extent of eating out** in SE Asian markets is not to be underestimated. Many younger consumers have better incomes, and eat out more often and for good value.
- **Airfreight export capacity** levers off 400 flights a week from Australia, supported by investments from airlines and forwarders in airport handling infrastructure.

Contact us if you wish to drill further into these and other issues.

A different view of the healthy plate – The US federal government unveiled its food “MyPlate” icon in June 2011 to replace its confusing food pyramid and hopefully simplify the messages about healthy eating.

The Healthy Eating Plate was created by food and dietary experts at Harvard School of Public Health and the Harvard Medical School, based exclusively on the “best available science and was not subjected to political and commercial pressures from food industry lobbyists” which were veiled references to the pressure that Harvard believes is applied to USDA by dairy, meat and grains industries in the US.

The Harvard specialists suggest that appeasement of sectors with most influential lobbyists ensure that MyPlate fails to give people some of the basic nutrition advice they need to choose a healthy diet.



✿ *A few food sectors weren't too happy with the bluntness of Harvard's view of the future of the diet. The dairy sector riled at suggested limits on dairy intake and the removal from the glass of milk icon from a position beside the plate.*

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Freshlogic is a specialised consulting and analysis business with a strong focus on the food industry. We deliver a range of services to industry and corporate clients, which aim to interpret market and supply chain conditions, or address challenges faced in food supply chains associated with changes in the preferences of consumers, the expectations of the community, international trade and economic settings.

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